

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2018/2019

### BEI2114 – INTERNATIONAL ECONOMICS

(All Sections/Groups)

26 OCTOBER 2018

3.00 p.m. - 5.00 p.m.

(2 Hours)

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#### INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **SIX** pages with **TWO** sections only.  
Section A – **Twenty (20)** Multiple Choice Questions  
Section B – **Three (3)** Structured Questions
2. Attempt **ALL** questions in both **Sections A and B**. The distribution of the marks for each question is given.
3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

**SECTION A: MULTIPLE CHOICE QUESTIONS (25 MARKS)**

1. In a two-product two-country world, international trade can lead to increases in
  - A) consumer welfare only if output of both products is increased.
  - B) output of both products and consumer welfare in both countries.
  - C) total production of both products but not consumer welfare in both countries.
  - D) consumer welfare in both countries but not total production of both products.
2. If a very small country trades with a very large country; according to the Ricardian model, then
  - A) the small country will suffer a decrease in economic welfare.
  - B) the large country will suffer a decrease in economic welfare.
  - C) the small country only will enjoy gains from trade.
  - D) the large country will enjoy gains from trade.
3. Suppose that there are two factors, capital and land, and that the United States is relatively land-endowed while the European Union is relatively capital-endowed. According to the Heckscher-Ohlin model
  - A) European capitalists should support U.S.-European free trade.
  - B) European landowners should support U.S.-European free trade.
  - C) all capitalists in both countries should support free trade.
  - D) all landowners should support free trade.
4. If a small country imposes a tariff, then
  - A) the producers must suffer a loss.
  - B) the consumers must suffer a loss.
  - C) the government revenue must suffer a loss.
  - D) the demand curve must shift to the left.
5. A specific tariff provides home producers more protection when
  - A) the home market buys cheaper products rather than expensive products.
  - B) it is applied to a commodity with many grade variations.
  - C) the home demand for a good is elastic with respect to price changes.
  - D) it is levied on manufactured goods rather than primary products.
6. Which organization determines procedures for the settlement of international trade disputes?
  - A) World Bank
  - B) World Trade Organization
  - C) International Monetary Organization
  - D) International Bank for Reconstruction and Development

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7. All the following nations except \_\_\_\_\_ have recently utilized export-led growth policies.
- A) Hong Kong
  - B) South Korea
  - C) Argentina
  - D) Singapore
8. Import substitution policies make use of
- A) tariffs that discourage goods from entering a country.
  - B) quotas applied to goods that are shipped abroad.
  - C) production subsidies granted to industries with comparative advantage.
  - D) tax breaks granted to industries with comparative advantage.
9. In a closed economy, national saving
- A) sometimes equals investment.
  - B) always equals investment.
  - C) is always less than investment.
  - D) is always more than investment.
10. A country's current account
- A) balance equals the change in its net foreign wealth.
  - B) balance equals the change in its foreign wealth.
  - C) surplus equals the change in its foreign wealth.
  - D) deficit equals the change in its foreign wealth.
11. How many British pounds would it cost to buy a pair of American designer jeans costing \$45 if the exchange rate is 1.80 dollars per British pound?
- A) 10 British pounds
  - B) 25 British pounds
  - C) 20 British pounds
  - D) 30 British pounds
12. Forward and spot exchange rates
- A) are necessarily equal.
  - B) do not move closely together.
  - C) are always such that the forward exchange rate is higher.
  - D) move closely together and are equal on the value date.
13. Which of the following is **NOT** an example of a financial derivative?
- A) forwards
  - B) bonds
  - C) swaps
  - D) futures

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14. What is the expected dollar rate of return on euro deposits if today's exchange rate is \$1.167 per euro, next year's expected exchange rate is \$1.10 per euro, the dollar interest rate is 10%, and the euro interest rate is 5%?
- A) 10%
  - B) 11%
  - C) -1%
  - D) -10%
15. Which one of the following statements is the MOST accurate?
- A) For a fixed interest rate, a rise in the expected future exchange rate causes a rise in the current exchange rate.
  - B) For a fixed interest rate, a rise in the expected future exchange rate causes a fall in the current exchange rate.
  - C) For a fixed interest rate, a rise in the expected future exchange rate does not cause a change in the current exchange rate.
  - D) For a given dollar interest rate and a constant expected exchange rate, a rise in the interest rate of the euro causes the dollar to depreciate.
16. Floating exchange rates
- A) systematically lead to much larger but less frequent short-run deviations from the absolute PPP.
  - B) systematically lead to much larger and more frequent short-run deviations from the relative PPP.
  - C) systematically lead to much smaller and less frequent short-run deviations from the relative PPP.
  - D) systematically lead to much smaller but more frequent short-run deviations from the relative PPP.
17. A key barrier to labour mobility within Europe is
- A) the laziness of Germans.
  - B) full employment in most European countries.
  - C) differences in language and culture.
  - D) lack of transportation.
18. Why is China's currency undervalued?
- A) The Asian miracle is over.
  - B) They do not trade with the U.S.
  - C) They do not allow their currency to appreciate despite large external surpluses.
  - D) They are stockpiling international reserves to protect against the next East Asian crisis.
19. Under the monetary approach to the exchange rate
- A) a rise in the money supply will cause currency appreciation.
  - B) a rise in the money supply will cause immediate currency appreciation.
  - C) a rise in the money supply will cause currency depreciation.
  - D) a rise in the money supply will cause immediate currency depreciation.

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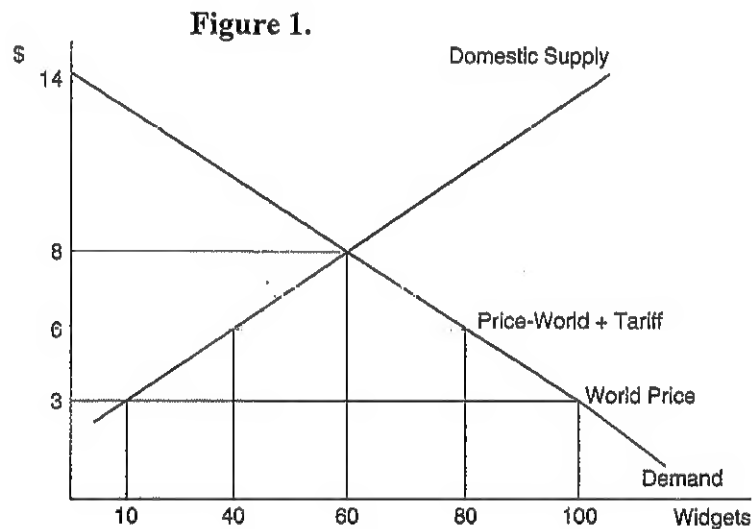
20. Fiscal expansion under fixed exchange rates will have what temporary effect?

- A) the money supply will decrease.
- B) output will decrease.
- C) the exchange rate will increase.
- D) the exchange rate will decrease.

## **SECTION B: STRUCTURED QUESTIONS (75 MARKS)**

### **Question One (25 marks)**

- (a) State and explain any **TWO (2)** types of tariffs. (8 marks)
- (b) It is argued that a tariff may help promote employment in a single industry, but is not likely to help employment in general. Discuss. (9 marks)
- (c) Suppose country A is a “small” country in terms of the world widgets market. **Figure 1** depicts the domestic supply schedule (Domestic Supply) and home demand schedule (Demand) for widgets in country A. Refer to **Figure 1** to answer part (i) to (viii).



- (i) In the absence of trade, how many Widgets does country A produce? (1 mark)
- (ii) In the absence of trade, how many Widgets does country A consume? (1 mark)
- (iii) With free trade and no tariffs, what is the quantity of Widgets imported by country A? (1 mark)

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- (iv) With a specific tariff of \$3 per unit, what is the quantity of Widgets imported by country A? (1 mark)
- (v) With free trade and no tariffs, what is the quantity of Widgets produced by country A? (1 mark)
- (vi) With a specific tariff of \$3 per unit, what is the quantity of Widgets produced by country A? (1 mark)
- (vii) With free trade and no tariffs, what is the quantity of Widgets consumed by country A? (1 mark)
- (viii) With a specific tariff of \$3 per unit, what is the quantity of Widgets consumed by country A? (1 mark)

**Question Two (25 marks)**

- (a) Describe what is meant by a J-curve. (8 marks)
- (b) Analyze the impact of an increase of the real exchange rate on exports and imports. (8 marks)
- (c) Under the flexible exchange rate system, examine the short run effect of a monetary expansion on the current account balance. (9 marks)

**Question Three (25 marks)**

- (a) It is argued that import substitution is a misguided trade policy if the intent is to promote long-term economic growth. Justify **TWO (2)** reasons underlying this argument. (8 marks)
- (b) Is the European Union (EU) an optimum currency area? Why or why not? Identify **TWO (2)** reasons to support your answer. (7 marks)

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- (c) "The Trump administration will put tariffs on steel and aluminum imports from Canada, Mexico and the European Union, the latest action in a string of protectionist policies to crack down on alleged trade abuses. The tariffs of 25 percent on steel imports and 10 percent on aluminum imports will take effect at midnight Thursday, Commerce Secretary Wilbur Ross told reporters. The U.S. gave those allies a reprieve from the duties, but the exemptions were set to expire Friday. The Trump administration will place quotas or volume limits on other countries such as South Korea, Argentina, Australia and Brazil instead of tariffs, he said."

Source: Trump administration will put steel and aluminum tariffs on Canada, Mexico and the EU (2018, May 31), *CMBC*. Retrieved from <https://www.cnn.com/2018/05/31/trump-administration-will-put-steel-and-aluminum-tariffs-on-canada-mexico-and-the-eu.html>

- (i) What is the **KEY** argument provided by the Trump administration for imposing tariffs on steel and aluminum imports? (2 marks)
- (ii) Do you agree with the argument provided by the Trump administration? Justify. (4 marks)
- (iii) Although tariffs may improve the welfare of a single nation, the world's welfare may decline. Under what conditions would this be true? (4 marks)

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